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Kahn, Otto Hermann

Two years of faulty taxation, and the results

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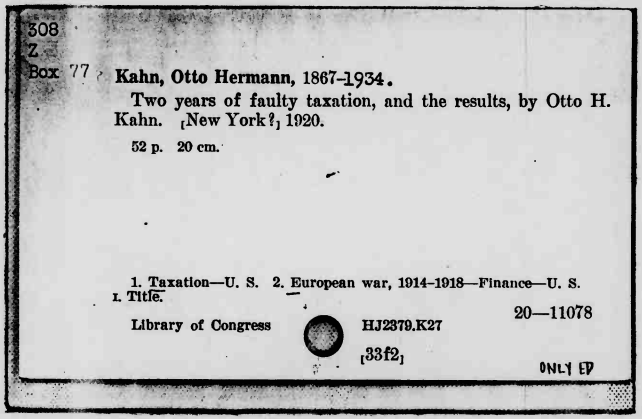

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Two Years of Faulty Taxation, and the Results

BY
OTTO H. KAHN

TAXATION, while necessarily involving political and social considerations, is essentially a problem in national economics. It is primarily a question of public advantage wisely, truly and broadly conceived. Its effects are subtle, profound and manifold.

Wrong economics, however well intentioned, have been more fruitful of harm to the people than almost any other single act of government.

We have had a two years' test now of a scheme of taxation which is unscientific, inconsistent and ill-designed. The result is writ large in the high cost of living, industrial and economic dislocation, and social discontent—for all of which our taxation policy is a strongly contributory, though, of course, not the sole, cause.

Two Years
of
Faulty Taxation,
and the Results

BY
OTTO H. KAHN

JANUARY
1920

Gift of Otto Kahn

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Two Years of Faulty Taxation, and the Results

In criticizing the faults and pointing out the harmful effects of our existing system of taxation, I am conscious of a rather ungrateful task. The "kicker" is rarely a sympathetic or welcome figure.

His voice is all the more apt to jar upon the public ear when the burden of his song is a plaintive melody on the theme of taxation, and his habitation is east of the Alleghanies and more particularly south of Fulton Street, Borough of Manhattan.

I can only declare that I do not mean to advocate a plan of taxation which shall spare wealth. To do so, would be both wrong and fatuous.

What I am advocating is a policy and methods which, while taking sincere and sympathetic account of equity and social justice, shall not have resemblance to the spirit and temper of the plausible stump speaker, but shall be based upon recognition of the teachings of history and economics and practical experience, and bear the imprint of reasonableness and dispassionate thinking, free from either favoritism or animosity.

Whatever may be said by theorists, or—on paper—proved, it is demonstrated by the actualities that *every one* of the taxes now in usage affects all the people in its consequences, direct or indirect, however hidden or remote may be the causal connection.

Taxation, while necessarily involving political and social considerations, is essentially a problem in national economics. It is primarily a question of public advantage wisely, truly and broadly conceived. Its effects are subtle, profound and manifold and, unless carefully studied and measured in advance, apt to crop up in unexpected ways and places. The very extreme of the burden laid upon business and incomes by the method of taxation adopted by Congress in 1917 and since continued, has partially defeated the purposes which the framers of that legislation had in view, and at the same time has given rise to certain unforeseen and troublous developments—as invariably happens in the case of extreme measures, especially where economics are involved.

No quarrel can be found with the purpose of Congress to draw preponderantly upon the well-to-do in placing the weight of direct taxation incident to and resulting from the war. It is right to seek to adjust that burden as near as may be according to capacity to bear it.

But even in doing things from entirely praiseworthy motives, it is well to remember the old French saying, that "virtue has been known, at times, to be more dangerous than vice, because it does not feel itself subject to tempering restraints."

Moreover, our tax legislation, apart from being shot through with the customary and expected elements of politics, bears unmistakable evidence of class and sectional bias.

And such bias, whether it be for or against capital, invariably produces untoward results. Joined to unscientific theory, crude economic conceptions, inept method, lack of moderation, and failure to gauge consequences, it has resulted in a revenue measure which very naturally became a strongly contributing factor in throwing our economic equilibrium out of gear and in producing a harmful and troublesome strain.

I hope I may be credited with the intention and purpose of speaking to the best of my conscience and judgment from the point of view of the welfare of the entire country and not of the welfare merely of the well-to-do.

But, in any event, the question is not what are the motives from which my arguments and conclusions spring, but whether those arguments are sound and those conclusions justified.

What I propose to say will not strike a popular note. That is additional reason why it should be said.

Those who differ from me are free to express their opinions and controvert mine. It is through the meeting of conflicting views in the forum of public opinion that truth is sought and ascertained in a democracy. * * *

To those who take the view that criticism of our existing surtax schedule is necessarily the "squeal" of a rich man, or affected by the bias of greed, I would point out that the rich man has little to "squeal" about on the score of the income

tax, provided he will join the ranks of the idle rich. All he has to do, if his conscience and disposition permit it, is to turn his back on work, risk, and constructive effort, and place as much of his capital as is, or can be made liquid, into tax-exempt securities, and to the extent that he does so, all direct taxation ceases to trouble him. Granting that existing tax-exempt Bonds (i. e., Bonds of States, Municipalities, etc.) cannot constitutionally be made taxable, it is nevertheless characteristic of the unwisdom and ineptitude of our revenue measures that Congress has done nothing to frame the scheme of taxation in such wise as to meet the resulting situation as far as practicable.

The four factors which, more than any others, have brought about in this country the present era of economic disturbance and high prices are, in my judgment:

1. The urgency of the world's demand for our raw materials and manufactured articles during and since the war.
2. Inflation of credit and currency.
3. Governmental and private extravagance.
4. Faulty taxation.

All other contributory factors are either of lesser effect than is frequently attributed to them, or spring more or less directly from the causes above mentioned.

The world's demand for our materials and services is bound to slacken in due course. The cure for inflation is a slow and difficult process. The epidemic of extravagance has gained such headway that it cannot be arrested rapidly (though it could, I think, and should be attacked more effectually than is being done). But the remedy for faulty taxation, and the resulting relief to the people, can be secured *at once* whenever it pleases Congress and the Administration to seek that remedy and to apply it.

The fact—it is a fact—that the tax burden on those of small and moderate means is lighter in this country than it is anywhere else, is altogether to our credit. But that rightful and desirable policy has been rendered largely abortive by the faults of omission and commission in the designing of our tax structure.

The system and method of taxation inaugurated in 1917 and continued since have played a very considerable part in boosting prices far beyond the inevitable and natural effect of circumstances inherent in the situation. In saying this I am not giving expression to an opinion based upon general observation, but to what I have actually ascertained by taking pains to follow in concrete instances, from producer to retailer, the process of the cumulative effect exercised on prices by our existing taxation.

Increased cost of manufacture and distribution

naturally means increased cost to the farmer, increased cost of the necessities of life, increased wages, in short, increased cost of living all around.

The fact that in other countries less heavily taxed than ours, prices have increased as much as here, or even more, has no bearing upon this statement, inasmuch as, in the case of those countries, the course of prices is affected by elements which do not come into action here or only to a minor extent.

Our three principal direct taxes are:

1. The Excess Profit Tax.
2. The Income Tax.
3. The Inheritance Tax.

I

THE EXCESS PROFIT TAX

The social and moral arguments for an unsparing war profits tax are to my mind unanswerable. To permit individuals and corporations to enrich themselves out of the dreadful calamity of war is repugnant to one's sense of right and justice and gravely detrimental to the war morale of the people. Moreover, the war profit tax in making for higher prices is considerably mitigated through circumstances and agencies which are operative when a country is at war.

Quite different in spirit and effect is the Excess Profit Tax, misleadingly so called, which Congress has deemed well to impose and to continue after

the war had come to an end. That measure establishes as "normal earnings" an arbitrary and, in the case of many industrial activities, inadequate percentage of return on invested capital, and by a complex, confusing and generally ill-devised system, taxes at a high rate all earnings above that percentage.

It lays a heavy and clumsy hand on successful business activity. It is grossly inequitable in its effects, and, to a large extent, the greater or lesser degree of its burdensomeness is determined by purely fortuitous circumstances. It puts a fine on energy, enterprise and efficiency. It leaves untouched the man of wealth who neither works nor takes the risks and responsibilities of business, but merely collects his coupons. It is bound to operate unfairly, freakishly, and unevenly, and greatly enhance the cost of things.

There is no need to discuss that tax at length and to describe its workings in detail, because its faultiness and the complexity of its technical provisions and its baneful effects in various directions have become so widely recognized that we may, I hope, look forward with reasonable assurance to its repeal or thorough modification in the not very distant future.

But to remove the excess profit tax on corporations without at the same time greatly reducing surtaxes on individuals would manifestly be a discrimination against private business in favor of

corporate business, inasmuch as it would greatly impair the capability of private firms to compete with corporations.

Moreover, the repeal or modification of the excess profit tax will not and cannot effect the relief which the situation calls for, unless accompanied by a well-judged revision of the existing scale of taxation of individual incomes, as I shall endeavor to show in the following chapter.

II

THE INCOME TAX

1. Comparing our income taxation with that of England, we find that in that country taxation starts with incomes (for married men) of $725, here with incomes of $2,000. The English tax on the smaller incomes, say, up to $5,000, is, on the average, about six times as heavy as ours. On the other hand, our tax in its upper scale is far heavier than that of England. The English maximum taxation is 52½%, ours is 73%, without including State income taxes. That is by far the highest scale of income taxation existing anywhere in the civilized world.

The English normal tax, *i. e.*, the tax applicable to the lowest incomes, is 30%. Our normal tax is 4% on the first $4,000 of taxable income, and

8% on incomes above that amount. On the other hand, the highest rate of English *surtax* is 22½%; our highest rate of *surtax* is 65%. *That is to say, in England the highest income taxpayer is taxed at a rate less than twice that applicable to the lowest taxpayer (though it must be borne in mind that certain deductions are allowed on small incomes). With us (deductions being likewise allowed on small incomes) the highest income taxpayer is taxed at a rate seventeen times as heavy as that applicable to the lowest taxpayer.*

Our scale of income gradation in respect of small incomes is juster and wiser than the English scale and greatly preferable to it. But our moderation in respect of taxing small incomes makes all the more conspicuous the unnecessary and harmful extreme to which we go at the other end of the scale.

2. While we thus take away up to three-quarters of his income (and even more if we include other taxes) from the capitalist engaged in business or investing his money in supplying funds to our industries, access is wide open for other forms of capital to the safe and tempting refuge offered by tax-exempt securities. All Municipal Bonds, State Bonds, Farm Loan Bonds and—unless specifically otherwise provided—Federal Bonds, are free from all taxation, except inheritance taxation. There are about fourteen billion dollars of such tax-free bonds outstanding (apart from partially exempt

Liberty Bonds), and more are being created all the time.

Under the existing schedule of income taxation, the inducement to buy tax-exempt bonds is so great, and the consequent demand for them so strong, that a ready and eager market at a comparatively low rate of interest (from 4½% to 5%) is offered to pretty nearly every township and county, thus greatly facilitating wasteful spending by municipal and other local governments.

Capital invested in such bonds not only has been and is free from taxation, but owing to the effect of the income tax in stimulating the demand for tax free bonds, such capital has remained unimpaired while capital invested in taxable bonds has undergone a very large shrinkage.

Capital invested in tax-exempt bonds not only has been free from taxation, but owing to the effect of the income tax in stimulating the demand for such bonds, such capital has remained unimpaired while capital invested in taxable bonds has undergone a very heavy shrinkage.

I am advised that it is not feasible under the constitutional limitations of our governmental system, nor would it be fair, to remove the tax exemption from such bonds of the tax-free class as are now outstanding.

Nor, as I am informed, would it be possible, according to the predominant opinion of legal authorities, for Congress to subject even future

issues of State, Municipal and County bonds to taxation, unless a constitutional amendment be adopted to that effect.

Personally, I do not favor the institution of tax-exempt securities, because I believe it economically unsound and socially objectionable—but we are confronted with a condition, not a theory.

The discrimination which permits the owner of liquid capital to escape all direct taxation by the simple process of buying Municipal or other tax-exempt bonds, becomes naturally all the more effective and accentuated as the income surtax rate increases.

The existence of that mass of non-taxable securities is therefore an additional consideration among those which should have bid our legislators pause before raising the scale of direct taxation to unexampled heights; it is an unchallengeable argument against the fairness, appropriateness and productiveness of enormous supertaxes.

3. I doubt whether it is fully realized by many people how immense is the advantage which is enjoyed by capital invested in tax-exempt securities as compared to capital invested in business or in corporate securities or earned in salaries.*

*The Secretary of the Treasury in his last report to Congress proposes an indirect method for curtailing somewhat the advantage accruing from the ownership of tax-exempt securities. He recommends that, for the purpose of determining the *rate* of supertax applicable to a person's income, the income from tax-exempt securities be included in the calculation, and that the *rate* of supertax thus

The following table may therefore be of some interest. It shows what percentage of returns would have to be obtained from such sources in order to equal the return from a 4½% tax-exempt bond purchased at par. It shows, to take an extreme instance, that in the case of a person in the highest taxable class, he would have to make nearly 17% upon a corporate security or in his business in order to get the same return which he receives by investing in a tax-free 4½% bond.

And it should be remembered that in making up these figures no account is taken of the excess profit tax, which still further increases the yield from tax-free securities as compared to the yield from capital invested in business. Nor is account taken of State income taxes or local taxation. Here is the table:

A taxable security or a business would have to yield the following percentages of return in order to bring the same net income as a 4½% tax-free bond (without calculating excess profits, State and local taxes):

ascertained be considered as the rate applicable to the actually taxable portion of his income.

Leaving aside the question of the legality and propriety of that method, it manifestly would not accomplish that which ought to be accomplished. There is only one way to reduce the advantage of tax-exempt securities, and that is, in addition to adjusting our super-taxes to reasonable proportions, to devise methods and ways of taxation (such as the expenditures tax or the sales tax referred to in the latter part of this discussion) which cannot be evaded by the ownership of non-taxable securities.

In the case of incomes exceeding	$20,000— 5.35%
In the case of incomes exceeding	30,000— 5.70%
In the case of incomes exceeding	40,000— 6.08%
In the case of incomes exceeding	50,000— 6.52%
In the case of incomes exceeding	60,000— 7.03%
In the case of incomes exceeding	70,000— 7.62%
In the case of incomes exceeding	80,000— 8.33%
In the case of incomes exceeding	90,000— 9.18%
In the case of incomes exceeding	100,000—10.23%
In the case of incomes exceeding	200,000—12.50%
In the case of incomes exceeding	300,000—14.06%
In the case of incomes exceeding	500,000—15.51%
In the case of incomes exceeding	1,000,000—16.67%

In the face of these comparisons, what inducement is there for a man to take upon himself the risk and drudgery, the worries and cares of active business, in the expectation of reasonable profits? What incentive is left to him for normally remunerated effort and enterprise under a dispensation which permits him to retain but an inconsiderable fraction of the fruits of his work, while the Government takes the lion's share up to three-quarters and more, in direct taxes? Does it not follow that there will ensue either a slackening in business effort or a tendency to exact unduly and undesirably large profits so as to offset the burden of taxes?

4. It is manifest from the figures I have quoted that no bond—foreign or domestic—can compete in interest yield with the attractiveness of tax-exempt bonds to those in possession of surplus incomes of any considerable size.

And it is just these persons who form the

clientele that in the past has been the mainstay of our investment market, for the masses of the American people have not heretofore been in the habit of putting their savings into corporate bonds.

Prior to the war there were less than 400,000 individual owners of bonds in the United States. I have no reliable figures which would enable me to judge to what extent the number of small bond investors has increased within the past few years (apart from investors in Liberty Bonds). It doubtless has increased, but the aggregate buying power, or rather, buying inclination of the small investor, has by no means made up, and is not at all likely to make up, for the defection of the larger investor.

The fact that approximately twenty million people bought Liberty Bonds during the war is no criterion. Their motive was not investment but patriotism.

Moreover, the experience which they have made in seeing a heavy and continuing decline in the price of those classes of Liberty Bonds which are only partially tax-exempt, is hardly calculated to encourage them to make investments in bonds.

5. Some of the results of exorbitant and unparalleled direct taxation on the one hand and the existence of a huge volume of tax-free securities on the other, have been these:

(*A*) The possessors of incomes of larger size, generally speaking, have gone on strike as far as investing in taxable securities is concerned, thus greatly diminishing the quantity of funds available for private enterprise. To the extent that they still buy such securities, they demand far higher interest rates than formerly, in order to recoup a portion, at least, of the impairment of their income.

That enhances the cost of capital and makes for higher prices of all articles.

(*B*) In consequence largely of this attitude of self defense on the part of private capital, the American investment market, to a great extent, has ceased to function for the time being. Unparalleled stagnation has characterized it for many months.

The shrinkage in the value of existing corporate bonds, which, though in part due to causes of a general character, is to the largest extent attributable to the income tax, amounts to billions of dollars.

There are a number of good railroad bonds which sell on a basis to yield from 7½% to 8½% annually. There are foreign Government bonds of unquestionable soundness which sell on a basis to yield 10%.

A really successful investment issue of larger size, even at what formerly would have been considered extraordinarily attractive rates of interest, has not been known for a long time.

(The fact that the recent issue of a foreign loan here was successful does not modify this statement, inasmuch as it was an offering not of bonds but of short maturity notes, and there was attached to it a speculative attraction in the shape of an exchange privilege holding out the possibility of a profit of as much as fifty per cent.)

The seriousness of the situation of our investment market, and its grave portent, have not received as yet the attention which they deserve, especially, too, in view of the financial requirements of the railroads, which can be met only through the investment market.

The free flow of capital, the normal working of that market are absolutely basic elements for every kind of trade and industry. The effects of their disturbance to any serious degree for any length of time are all-pervading.

We cannot have a return to normal conditions of trade, prices, etc., until our investment market will have come within measurable distance, at least, of normal conditions.

And that is impossible as long as our present income tax remains in force, even if the other elements which have operated to bring about the present abnormal situation were removed.

(*C*) Our new-born aspiration to be the great financial mart of the world has been strangled in its cradle because a broad, active and receptive

investment market is an indispensable prerequisite for the establishment of a potent financial centre.*

It is wholly futile, under our present income tax, to expect private capital to invest to any adequate degree in issues here of foreign securities, and thus to aid in relieving, to an extent at least, the unprecedently abnormal state of the exchange rates, which if left to itself is bound, sooner or later, to prove a formidable obstacle to our export trade and otherwise to have a seriously detrimental reaction upon our own affairs.

(I do not fail to recognize that to a large extent the remedy against the depreciation of their exchanges must come by action of the European nations themselves.)

If we wish the world to continue to buy from us on a large scale, if we wish to do what duty and self-interest demand in aiding Europe to normalize and stabilize itself, and unless we are prepared to forego those opportunities of lasting value to the country, which the present situation offers, we must be willing to advance considerable funds to our foreign customers, as England, France and

*It is true, England also has a heavy income tax, though much less heavy than ours in its higher scales; but such tax-exempt bonds as exist in England are free from the NORMAL income tax only and not from supertaxes, and there are sundry other reasons why the effect of the British income tax is not the same as it is with us from the point of view of international finance and trade. Furthermore, the British income tax is not as all-embracing in its scope as ours. For instance, profits made by a person otherwise than in his regular trade are not subject to the income tax at all, in England.

Germany have always done to theirs in pre-war times, and as, indeed, England is doing now to the extent of her ability.

The banks and exporters cannot possibly carry the whole load of financing such advances. We may not look to the Government to intervene. Private investment capital cannot be induced to come forth adequately under the circumstances above explained.

The deadlock is bound to persist until our policy and methods of taxation will have been revised and modified.

A very regrettable impression is created abroad by the fact that at a time when we alone are capable of supplying the nations with urgently needed funds, the American public fails to respond adequately, and when our market does accord loans to foreign countries, very onerous conditions are exacted. The fault is unjustly attributed to an ungenerous desire to take greedy advantage of Europe's necessities, when, as a matter of fact, the cause—apart from the natural results of prevailing conditions—is primarily to be found in the circumstances above mentioned.

There is widespread expectation that when and if the Peace Treaty is ratified by the United States, the effect of that act will go a long way to cure the existing state of the international exchanges by setting in motion a free flow of American credits

to European nations. Those who hold that view are, I venture to think, harboring a delusion.

While the eventuality referred to would very likely be reflected to a certain degree and for a certain time in a movement of the exchanges toward a less abnormal level, yet the influences behind such a movement would, I think, be largely sentimental and therefore only temporary in their effect.

The credits which, apart from advances by our Government, we have already extended to Europe, amount to a much larger aggregate than is generally supposed. Our banks and other financial institutions and exporting houses cannot safely go much further. Our credit structure is greatly strained as it is.

The only large reservoir which can still be tapped, is the mass of private investment capital, and the way to that reservoir is barred by the faults of the income tax.

(*D*) Apart from the scale of taxation, there are various provisions in our income tax law which handicap the American business man as against his European competitor.

A common characteristic of these provisions is that while nationally harmful in their effect, they are little productive of revenue.

(*E*) Seeking because of the income tax and the high cost of things a correspondingly higher return

on their capital, not a few of those who heretofore were in the habit of placing their funds in safe investment securities have been tempted and induced to turn to speculation. The promoter of "get-rich-quick" schemes has been reaping a harvest. The housing famine and the resulting hardships and high rentals are due in considerable part to the fact that capital has to a great extent withdrawn from the field of real estate mortgages because they do not yield sufficiently attractive returns after taking into account the income tax.

(*F*) Excessive direct taxation prevents that measure of accumulation of surplus, which is needed for the normal expansion of the country's business. It does this all the more effectively, as business men of necessity have only a limited amount of their capital in the form of liquid or quickly-realizable assets, and it is just these assets which are absorbed by taxation because taxes must be paid in cash.

If business men cannot accumulate adequate working capital, the result will be either reaction in trade and restriction in production, or demands for credit in such volume as to bring about a dangerous and harmful strain.

Increased production is one of the crying needs of the hour. But increased production necessarily means the use of increased capital. It means that the business man must have an adequate surplus

at the end of the year in order to perfect his plant, to enlarge his operations, etc.

Where is he to find that surplus if taxes are so heavy that but little is left to him after meeting his own and his family's expenses? How is he to obtain that capital unless by the dangerous expedient of constant and heavy borrowing, which, moreover, he will not always find possible?

These same considerations, though naturally somewhat modified in their application, hold good in the case of corporations. And the present attitude of investors has had the result that large corporations which ordinarily would meet their financial requirements by having recourse to the investment market, are compelled in many cases to resort to the banks for loans and credits, thus competing for such accommodation with the smaller merchant and intensifying the jam and congestion of the credit situation.

In connection with this matter of the need of working capital for industry, it should be borne in mind that owing to the rise in prices and wages it takes a great deal more capital to do the same volume of business than it did prior to the war.

In considerable part, the existing stringency and strain in the credit and money market is due to the fact that liquid surplus capital heretofore available for business and investments is now appropriated to a preponderant extent by the Government in taxes. The plausible conception

that money gathered and spent by the Government is or can be equally effective in promoting progress and prosperity as money employed in the normal course of trade and business, is and has been unmistakably proved wholly fallacious.

(*G*) Enterprise is hampered by the taxation now in force and thereby production retarded. An apparent contradiction to this statement may be seen in the great industrial activity which prevails now and has prevailed for some time. But the contradiction is merely an apparent one.

Our present prosperity is due to abnormal causes. It is not normal in its concomitants, nor is it at all uniform or even in its workings.

New enterprise is largely confined to those activities in which, owing to prevailing conditions, wholly abnormal profits are possible, profits so great that they can stand exorbitant taxation.

Such activity as is based upon what were formerly considered ordinary profits is greatly restricted, necessarily so because normal business cannot make an adequate living or offer commensurate inducements under existing conditions of taxation.

And steady, reasonably compensated activity and enterprise are, after all, the really desirable kind, from the social and economic point of view, rather than a state of hectic rush, based upon a transitory demand which does not count the cost.

I know of my own knowledge numerous instances within the past two years when useful and desirable transactions which ordinarily would have been undertaken were turned down on the ground that after deducting the share which the Government would take in taxes, there was so little left as compensation for the effort and risk involved, that there was no longer any inducement reasonably sufficient to justify that effort and risk.

(*H*) One of the most valuable by-products of wise taxation is the promotion of thrift. There never was a time when thrift was more urgently essential than it is now.

The vast possibilities of saving do not rest with the relatively small number of wealthy people, especially now when their spending power has been greatly decreased through taxation, but with those elements among the masses of the people whose spending power has been very largely increased within the past five years. Our legislators have completely failed to use the instrument of taxation to promote economy in expenditures among those elements. And in the case of the well-to-do, the very hugeness of the taxes imposed actually discourages saving, or makes it impossible. The excess profit tax and, by reason of the kind and manner of its gradation, the income tax, instead of promoting restraint in expenditures, are rather breeders of extravagance.

Our taxation impairs, far beyond need or reason,

the incentive to effort and saving and, at the same time, makes all too smooth and easy the path of wasteful governmental spending.

These and other baneful effects directly traceable to short-sightedly excessive and clumsy taxation of capital, merely go to confirm old and tested truths well known to every student of taxation. Thus, for instance:

An excessive tax destroys its own productivity. The great nations of Europe have been and are under an infinitely greater financial strain than our country was or is. The Cabinets in these countries have undergone many changes in the last five years. They have included Socialists and Representatives of Labor. In the determination of their taxation program they have had the assistance of the best economic brains of Europe. England, France and Italy are probably no less democratic in their economic policies and purposes than we are. Yet, no European Government has deemed it wise and advantageous to the state to impose rates of income taxation as high as the upper grades of ours. If all European nations except Bolshevist Russia have stopped at certain limits of income taxation, much below ours, the reason is not that they are animated by any greater tenderness for rich men than we are, but that they have recognized the unwisdom and economical ill-effect of going beyond these limits.

Extreme rates of taxation do not and cannot fully reach those whom they are intended to reach, but they do inevitably reach, in one way or another, in their ultimate consequences, the masses of the people.

He who would lead the people to believe that they can be benefited—or, indeed, that they are other than greatly harmed—by oppressive taxation of capital, fools himself, or attempts to fool others.

Such taxation is bound, in the end, to lead to stagnation and retrogression. The prosperity of a community is a matter of manifold and subtle interrelations. In the long run labor cannot be abundantly employed and well paid nor can the farmer and the small trader be prosperous unless business at large is enabled to grow and prosper.

Faulty taxation affects the masses of the people unavoidably and harmfully, even though it be in no way laid upon them in the shape of direct or indirect governmental imposts.* In fact, it is

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*I had occasion recently to read an article published in the London Magazine about a century and a half ago, to be exact, *in the year 1767*. It deals with and analyzes the causes of a then existing situation, strikingly similar to that which prevails with us at present.

The following extracts from that article may appropriately be quoted:

"*Every new tax does not only affect the price of the commodity on which it is laid, but that of all others, whether taxed or not and with which at first sight it seems to have no manner of connection.* . . .

"*Taxes, like the various streams which form a general inundation,*

likely to affect them more adversely and acutely than even taxation which, to a moderate and carefully measured extent, is laid upon them, provided that such taxation is wise and scientific.

Extravagance, log-rolling, the unwise and inefficient expenditure of money by governmental bodies count among the acknowledged foibles of Democracy. The structure of our income tax schedule encourages these foibles, in that it creates the belief that the great bulk of government expenditures is provided out of the pockets of the well-to-do without materially burdening the rest of the community.

The formula of a very small normal tax and enormous surtaxes acts as a strong stimulant to wastefulness on the part of executives, heads of departments and legislators, in that it tends to lessen their salutary qualms on the score of being held to account by the people for the resulting tax burdens. It is all too invitingly easy to meet rising expenditures by giving the surtax screw another twist of a few per cent., or to maintain an exorbitant level of expenditures in normal times by leaving the surtaxes at rates which were meant to cover the needs of an extraordinary emergency.

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by whatever channels they separately find admission, unite at last and overwhelm the whole. . . .

"The increase of taxes must increase the price of everything, whether taxed or not, and this is one principal cause of the present extraordinary advance of provisions and all the necessaries of life."

By the opiate of such taxation which *apparently* touches them but very little or not at all, the masses of the people are apt to be lulled into a sense of relative indifference to governmental wastefulness; but the facts remain awake and inexorably at work, and their working means and has always meant that governmental extravagance is visited not upon one class, but upon all the people.

Wrong economics, however well intentioned, have been more fruitful of harm to the people than almost any other single act of government.

A tax which is regarded and accepted as reasonable, is likely to bring at least as high a yield as a tax which those upon whom it falls feel justified in regarding as grossly and needlessly excessive. An income tax increased, of course, over the rates prevailing before the war, yet keeping within the bounds of moderation, would produce probably little less revenue than the existing tax—and with far less economic disturbance and hindrance to the country.

Governmental greed, just like private greed, is apt to overreach itself. Many transactions on which those concerned would willingly pay a moderate tax, are now simply being laid aside and not effected at all because of the intolerable taxation to which they would be subjected. Others are being concluded in an artificial, round-about unsatisfactory way so as to avoid the full burden of the tax. The result in either case is a loss of

revenue to the Government and an impediment to business.

While business and accumulated capital are naturally the principal single sources of revenue, there is a point beyond which these sources cannot be used wisely, safely or effectively. To supplement them, numerous other means of providing revenue are available. The framers of our tax legislation have resorted to them only unwillingly and inadequately, although they are being greatly and successfully used in all other countries. Taxes of that nature, while largely productive in the aggregate, are so trifling in their units as to be barely perceptible in effect, and they have the great advantage of collecting themselves almost automatically, whereas the expense, labor and complexities both to the Government and the tax payer, which the collection of the income and excess profit taxes involve under the provisions of the existing law, are of staggering magnitude.

I am aware that the contention has been put forward as an argument for the existing scale of taxation of incomes and profits that it is a desirable thing in itself to place limitations upon a person's income. But if that principle were once to be admitted, where would its application stop? Where would the permissible limit of earnings be fixed and how long would it stay there? The whole theory of such a contention is incompatible with our tradi-

tions and with the spirit and essence of our institutions. And I feel certain that the vast majority of the American people are not prepared to permit a temporary emergency to uproot the basic conceptions of our economic and social system and to put in their place the doctrines and methods of Socialism or some kindred outlandish creed.

No doubt the prevailing apportionment of monetary reward is not free from defects (though less so in this country than anywhere else), but there has been a steady and pronounced tendency and movement, especially within this generation, toward mending such defects and remodelling inequitable conditions. Evolution and the irresistible powers which make for progress, enlightenment and justice may be depended upon to continue and advance that process. There can be no turning back. But improvident measures of economic violence will not hasten that process; on the contrary, they will impede it.

Thus far, no civilized nation has ventured upon the step of placing a limit on what a man may earn. The consequences and repercussions of such an act would be almost incalculable, and they would, I am sure, prove sinister and destructive. At any rate, if we ever want to make so fundamental an alteration in our economic order, the proposition needs first to be exhaustively discussed before the people in all its bearings, so that its inevitable consequences may be clearly understood; and the people

must then have the opportunity to pronounce themselves upon the subject definitely and unmistakably. Certainly, the purpose must not be sought to be accomplished without a positive mandate, by indirection, in the guise of a revenue measure.

III

THE INHERITANCE TAX

The general tenor of the arguments contained in the foregoing chapter applies, though in a lesser degree, to inheritance taxation, the maximum of which under the existing law is 40%. And again, there are to be added to Federal taxation the rates of legacy and inheritance taxation in the several states.

I am convinced that a progressive inheritance tax ought to and will continue as a permanent feature of our fiscal policy. The arguments for it from the social point of view are unanswerable and compelling, even though in the strictly economic aspect of its workings it is open to certain objections unless kept within somewhat circumscribed limits.

It would exceed the bounds of this discourse to enter into a complete consideration of the subject of inheritance taxation. While emphasizing

my belief in the principle of such taxation as just and called for, I will set forth a few of the arguments—though by no means all—which bear upon the question of measuring the extent to which it may wisely and effectively be imposed.

To a certain degree, inheritance taxation, in its very nature, has the economic ill effect of impairing or sometimes even destroying that which a lifetime of individual work and planning has created. Values and assets thus impaired or destroyed must be re-created, else production must fall behind.

That means a duplication of work each generation, a waste of national energy and effort, and thus a loss to the community.

Moreover, there is inevitably inherent in inheritance taxation that element of social undesirability and of unfairness that it leaves entirely untouched the wastrel who never laid by a cent in his life, and penalizes him who practiced industry, self-denial and thrift.

And it cannot be too often said that the encouragement of thrift and enterprise, desirable at all times from the point of view of public welfare, has become of the utmost importance under the circumstances in which the world now finds itself, because it is only by the intensified creation of wealth through savings and production that the world can be re-established on an even keel after the ravages and the waste of the war.

The easy assumption in certain quarters that inheritance taxation on large fortunes ought to be made so heavy as practically to abolish the bequeathing of wealth to descendants and to start everybody on the race of life more or less on the basis of financial equality, overlooks fundamental and unchangeable facts.

Just as the purpose of punishment is to deter, so the purpose of reward is to stimulate. The community must stimulate men, and especially men of productive ability, to work to the full measure of the capacities they possess.

That is the practice which men of large affairs follow in the conduct of their business. They are always on the lookout for brains and capacity, and ready to give liberal reward to the possessors of those gifts. They pay the price willingly because they know that there is no better and more remunerative investment than men of uncommon ability and none more greatly in demand or of more limited supply.

That observation, amply demonstrated by long experience, holds good equally as applied to the community.

The point is emphasized in the following quotation from the very able speech with which some two years ago the Canadian Minister of Finance, Sir Thomas White, introduced in Parliament the income tax measure then proposed on behalf of the Canadian Government: "We will need men of

enterprise and ability who can bring capital into the country and develop our immense resources, and in reviewing this measure after the war, I think consideration should be given to the question of whether the taxation is so heavy as to operate to prevent men of that type from coming to this country and giving us the benefit of their enterprise and their capital."*

It is hardly open to question that the work of able men engaged in serious and legitimate business, while naturally of financial benefit to them-

*A very interesting and admirably lucid little book entitled "Comment équilibrer le Budget de la France?" has just come into my possession. It was published in France in November, 1919, by Custos, this being the pseudonym of Mr. François Marsal, who last month entered the French Cabinet as Minister of Finance. I am tempted to quote at length from the observations of that eminent and experienced economist and financier, but owing to considerations of space, must confine myself to reproducing merely the following few sentences (translated from the French):

"A country's system of taxation is and must be an integral part of the functionings of its whole system of economics. To act in a reverse sense, that is, to set up measures of taxation before establishing an appropriate economic regime, is to risk failure, to compromise the development of the country and arrest at their source the initiatives of production. . . .

"We cannot sufficiently emphasize that isolated and haphazard tax measures involve the risk of spoiling everything. Hesitation, uncertainty and dislocation result, which prevent initiative, arrest constructive effort, impede the creation of wealth, and are damaging to the country and liable to bring on intolerable conditions for all the people, and especially for the working population. The general system of taxation exercises a powerful influence upon the life and economic developments of a country. . . .

"The creation of capital, the upbuilding of property, and the transmission of such property from the father to the children, are cornerstones of society. The acquisition and the transmission of capital are essential conditions of progress inasmuch as they are the determining reasons for work and saving."

selves, benefits to a much greater extent the country at large. Many examples might be cited in proof of this.

In addition to stimulating them to effort, the community must also make it worth men's while to save and to accumulate.

It is a well-known fact that one of the most powerful inducements for men to work and save is the thought of those whom they will leave behind, and the desire for the perpetuation of that which they have built up.

If that inducement is taken away, or so materially reduced as to be no longer substantial, it is open at least to serious question in what degree saving and thrift will cease and self-indulgence take the place of self-denial, and to what extent men will fail to exert themselves beyond the point at which they are enabled, during their lives, to satisfy their own and their dependents' wants and desires. An immense driving force will have been removed from those elements which make the wheels of the world go round.

Material reward, fortunately, is not the only incentive which causes men to work and strive, but it is a very potent incentive undeniably.

It is true, Socialists and other adherents of ultra-advanced doctrines claim that the motive of social duty and service can be substituted effectively in ordinary workaday life for the motive of self-interest, ambition and family, but such an

allegation runs counter to the general characteristics of human nature and is entirely unsupported by experience. In fact, the experiment has been tried numerous times, and has failed invariably and completely.

There should not be, and I am convinced there need not be, unmerited poverty and want in a country as abundantly endowed with natural resources as America. But the remedy cannot be found in discouraging, penalizing, or preventing the individual accumulation of capital.

I am profoundly convinced that we must leave nothing undone, within the limits of what may sanely and safely be attempted, to equalize opportunity and to strive for the greatest attainable degree of well-being for all. The world must not and will not stand callously by and permit individuals to exercise without restraint such natural advantages as are theirs, and let the strong bear down upon the weak.

Every wisely feasible and really helpful plan toward remedying maladjustments in the allocation of the monetary reward of work ought to be warmly encouraged and welcomed.

But the privilege of handing down property by will is an essential part of the price which through many centuries the community has found it well and useful to pay as an incentive to work and saving and self-denial and from other motives of even more fundamental concern.

And if the result is tested by the material progress and enhanced productivity of the world and the increased well-being of the people, it appears worth the price. At least, no other means has as yet been invented and stood the test of practical working which will produce the same result.

Moreover, if all the money left to the inheritors of wealth were to be divided among the entire population, the amount coming to each one would be infinitesimal. And if, instead, the Government took it all, or most of it, what reason is there to think that it would be used as well and effectively as in private hands?

There is an astonishing lot of hazy thinking on the subject of the uses of capital in the hands of its owners.

The rich man can only spend a relatively small sum of money unproductively or selfishly. The money that it is in his power to actually waste is exceedingly limited.

The bulk of what he has must be spent and used for productive purposes, just as, presumptively, would be the case if it were spent by the Government—with this difference, however, that generally speaking, the individual is more painstaking and discriminating in the use of his funds and at the same time bolder, more imaginative, enterprising and constructive than the Government, with its necessarily bureaucratic and routine regime possibly could be.

Money in the hands of the individual is continually and feverishly on the search for opportunities, i. e., for creative and productive use. In the hands of the Government it is apt to lose a good deal of its fructifying energy and ceaseless striving and to sink instead into placid and somnolent repose.

It may be appropriate to mention in this connection that the frequently heard assertion that the great bulk of the wealth of the nation goes into the coffers of a small number of rich men, is wholly false.

The fact is, on the contrary, that about seven-eighths of our national income goes to those with incomes of $5,000 or less, and only about one-eighth to those having incomes above $5,000. A carefully compiled statement issued by the Bankers Trust Company of New York some eighteen months ago estimates the total individual incomes of the nation for the fiscal year ending July 30, 1919, at $53,000,000,000, and finds that families with incomes of $5,000 or less receive $46,000,000,000 of that total.

It is not true that under our economic and social system "the rich are getting richer and the poor poorer." On the contrary, the diffusion of wealth has been going on apace; the trend of things within the past twenty years has been greatly toward diminishing the difference in the standard and general way of living between the various

categories of our population. And our wealthiest men are not those who inherited their possessions, but those who started at the bottom of the ladder.

In taking leave of this subject which to be dealt with adequately, would require, as I have said before, far more exhaustive treatment than I can give it in these pages, I should like only to add this:

The eternal law of compensation works in mysterious ways. It is unquestionably a fact that it is not the children of the rich to whom life yields the greatest measure of joy and satisfaction and reward.

IV

For a country as immensely rich and intrinsically as little burdened, relatively, as ours, it is really not a problem of great difficulty to raise, by taxation, the sum which the needs of the occasion require.

Now that the emergency of the war is over, I believe that this subject in its entirety should be subjected to unprejudiced and competent critical review. Good intentions are not a sufficient qualification for the task of devising a plan and methods of taxation to balance our vast expenditures. Exact thinking is required, technical capacity, adequate knowledge and the courage not to shrink

from unpalatable conclusions. Economics are stubborn things and will not permit themselves to be either disregarded or overridden or dealt with emotionally.

In England a non-political committee was appointed recently by the Government to study the effects of the various kinds of taxes which have been in force during the past five years, and to make recommendations to Parliament based upon such study. It seems to me that similar action by Congress or the President would be wise and timely.

A small committee of well-informed men of different callings, approaching their task free from political, social and sectional bias, would not find it a formidable undertaking to evolve a measure which, while fully responsive to the dictates of equity and social justice, would produce no less revenue than the taxation now in force, and yet would be far less burdensome upon the country, less hampering to enterprise, and less productive of economic disturbance and dislocation.

Such a committee would not be unmindful of the manifest propriety of grading the burden of taxation as much as practicable according to capacity to bear it.

But neither would it be unmindful of ways of easily collectible, easily borne taxation, which we have failed, thus far, to utilize. Nor would it look upon material success as something akin

to guilt and therefore to be visited with punitive treatment.

It might recommend a radical revision of income taxation on the theory that the emphasis of taxation be laid rather on expenditures than on incomes and that a sharply marked distinction be made between such portion of a person's income as is used constructively in savings, investments, or enterprise and such portion as is spent on his scale of living. A tax based on that theory would be calculated and paid at the end of a twelve month's period, just as the income tax. It would, no doubt, exempt expenditures of a certain minimum sum per annum, say, $2,500 for single and $4,000 for married persons, would be applied moderately to moderate expenditures, and would be severely progressive on large expenditures.

Much can be said for such a tax from both the economic and moral points of view. Among other desirable effects, it would reach those who, by holding tax-exempt securities, now escape the burden of income taxation, and it would thus go a long way to eliminate the undue advantage now attaching to tax-exempt securities and to correct the resulting evils which I have pointed out before in discussing that phase of our tax problem.

While a tax of this nature involves certain complexities in its details and working, they would by no means be insuperable; in fact, they

would, I think, be less formidable than those of the present income tax.

The Committee might also, I should think, reach the conclusion, quite irrespective of the theory suggested in the foregoing paragraphs, to recommend the imposition of a small percentage tax, say 1%, on all sales of commodities and products and presumably of real estate. Such a measure would be productive of an immense amount of revenue and would not be harmful to any one.

A similar tax was imposed in the course of our Civil War and appears to have functioned so well and to have met with such ready acceptance that it was not repealed until several years after the close of that war.

The exact form which such a tax should take is debatable. It might be imposed on the seller according to the aggregate sales effected, the tax to be computed quarterly, semi-annually or annually. Or, it might, on every transaction, be paid by the purchaser, in which case it should not be included in the selling price, but specifically added to it as a separate item, probably best in the shape of stamps. Or, it might be made applicable to retail sales only.

In the latter case, it might be found well to exempt from the tax single purchases below $2. Also in that case, i. e., in dealing with the ultimate purchaser, it might possibly be deemed appropriate to make the tax varying in its scale, say from 1%

to 10%, or even 20%, progressing according to the value of the article purchased, so that, for instance, a person making a $5 purchase would pay 1% tax, i. e., five cents, while a person making a $5,000 purchase would pay 10% tax, i. e. $500, and so on.

While the progressive scale suggested would be attractive from the point of view of equity, I realize, of course, the practical objections to which it is open and the difficulty of its operation. Indeed, it may be found upon due investigation that the complications involved would be such as to be decisive against the adoption of that suggestion.

The simplest and most remunerative way, naturally, would be to impose a very small tax on the turn over, computed quarterly or semi-annually, of sales of commodities and products all along the line, from first to last.

At any rate, whatever may be the differences of opinion as to the various ways of applying a sales tax, I feel confident that as far as the principle of such a tax is concerned, a great majority of the men engaged in business large or small would welcome it.

If the Ways and Means Committee of Congress were to consult on the subject with duly qualified representatives of business associations and agricultural and other organizations, no great difficulty should be found to devise the best, most productive

and least troublesome way and method by which a tax of that general nature should be made operative.

It may be objected that such a tax is finally passed on to the consumer. No doubt it is. So is the bulk of the excess profit tax. So, in the end, is practically every business tax and, to a great extent, even individual taxes.

And the burden on the consumer is always cumulative, inasmuch as almost every article before it comes to him passes through several different handlings in the process of being converted from the raw material to the finished article on sale, and each one of those concerned in that process seeks to add to the price a proportionate percentage to cover his taxes, at least in part.

Nor is he justly subject to reproach for doing so, in most cases. He is simply acting from necessity, because, as I have indicated before, what the existing profit tax, as well as the income surtax absorb, is that essential necessity for the conduct of business—cash. You cannot pay your taxes by turning over book assets, or bills receivable, or materials, or inventories; you must pay them in cash. But, while the outgo in taxes payable to the Government is all cash, really available as free surplus, the income in the case of most active businesses is cash only to a limited extent. Consequently, the average business man

must seek to increase his margin of profit in order to increase his margin of available cash. One of the most unsettling consequences of our tax system is the cash drain which it creates in drawing liquid funds away from their normal and fructifying channels and into the coffers of the Government.

The sales tax would aggregate a far smaller burden by the time it reaches the consumer than our prevailing array of taxes. It would weigh far more lightly on the rank and file than do the results of our existing taxation.

At present, apart from various minor taxes, corporate business pays 10% income tax and, in addition, excess profit taxes up to 40%. Individuals pay up to 73% in Federal income taxes alone.

A trifling sales tax on the huge volume of commodities changing hands annually would yield so vast a revenue that it would enable the excess profit tax and practically all other abnormal business taxes (except perhaps the corporate income tax) to be eliminated, surtaxes on individual incomes to be greatly reduced, and Federal taxation of incomes up to, say $4,000, to be abolished altogether.

The result would be a great reduction in the cumulative percentages with which prices are now "loaded" to meet taxation, that is to say, there would be bound to ensue a lowering of prices all

round. Competition would see to that. If, contrary to all expectation and precedent, it should not do so, other agencies will.

Another advantage of the sales tax is the great simplicity of its working and the definiteness of its application, especially as compared to the vexatious, uneven and unfair working of the excess profit tax.

Furthermore, to collect such a tax requires little expense, no complicated bookkeeping, no intricate schedules, no lawyers' and accountants' services, and no army of Government employees. It can be increased or decreased in short order and without any resulting economic disturbance, according to the financial needs of the Government.

If a 1% tax produces too much, it is a very simple process to decrease it by an appropriate percentage. If it produces too little, a small additional percentage will yield the sum needed.

We have had a two years' test now of a scheme for raising revenue, which is unscientific, inconsistent and ill-designed and has as its principal characteristic the taxation of business and constructively employed capital on a scale without a parallel anywhere. The result is writ large in the high cost of living, industrial and economic dislocation and social discontent—for all of which our taxation policy is a strongly contributory, though, of course, not the sole, cause.

In common with all right-thinking men, I

desire very earnestly and sincerely to see the burdens of the poor and those of moderate means lightened to the utmost extent possible.

I realize but too well that the load weighing upon those whose income has not kept pace with the increased cost of things has become almost intolerable. I welcome every means compatible with sober reason and the test of experience and with national welfare, to remedy that situation, or at least to mitigate it to the limit of our ability.

But I am entirely convinced that crushing and bungling taxation of capital and industry is not the way to accomplish that result. I am convinced, on the contrary, that such taxation is bound to redound to the detriment of all the people.

If our extreme surtaxes on incomes, and our excess profit tax had the effect of breaking the vicious circle of price boosting and wage boosting, if these taxes had power to eliminate or curb "profiteering," much might be forgiven them.

But experience has proved that not only have they no such effect and no such power, but indeed they have tended to greatly intensify those evils. To deal with these noxious things, measures of quite a different nature are required.

V

I know the political mind shies from laying hands on the presumably popular structure of huge supertaxes on incomes and profits. But I venture to think that the political mind is once more acting according to its inveterate habit of underestimating both the integrity and the intelligence of the people.

Twenty odd years ago Mr. Bryan, acting, I am certain, from true conviction and in absolute good faith, offered to the people a scheme which they were led to believe would practically cut their debts in half, enhance greatly the price of farm products, then at low ebb, increase wages largely, and bring about other results strongly appealing to selfish interest. No more tempting lure was ever held out to the popular vote.

It took the Republican party managers a long while before they mustered courage to meet the issue squarely and to come out flatfootedly. However, they did finally and Mr. Bryan's challenge was met by a most intensive campaign of education and information. Intricate questions of economics and currency were discussed and debated up and down the land.

The result was that a great majority of the people recognized the faultiness of Mr. Bryan's program and rejected it.

When the pros and cons of a proposition, of

whatever nature, have been set fully and plainly before them the great majority of the American people can be trusted to form right and just conclusions, and to reject fallacies, however appealing, plausible and tempting.

The facts as to the harm and futility of our existing revenue measures are indisputable and easily explained and demonstrated. It is for us business men to bestir ourselves and see that these facts are brought to the attention of the people duly and effectively.

The average man and woman are amply capable of grasping them, and they will be found entirely ready to see stark unfairness remedied and damaging errors corrected.

The legitimate rights of property, subject of course to the reasonable and proper exercise of the superior rights of the community, are among those elements the sum total of which makes up liberty in its true meaning.

It is not a "standpatter's" phrase, but a sober fact that liberty and ordered progress presuppose respect and protection for the property rights of the individual, within those bounds, naturally, which are inherent in wise and enlightened regard for the public welfare.

The principle of the rights of private property is one of the pillars of the structure of liberty, as liberty was always understood in America, and, I am sure, is still understood by the overwhelming

majority of Americans. You cannot seriously weaken one pillar of that structure without weakening the whole.

Economics, the laws of finance, the functions of capital, the problems of trade, etc., are complex and difficult subjects. They lend themselves all too easily to plausible fallacies and to demagogic misinformation.

The rank and file cannot be expected to have acquainted themselves with the lessons of either history or textbooks on these subjects, or to know the teachings of practical experience concerning them. They should not be expected unaided to "dope out" these complex things for themselves to their correct and tested solution. They should not be expected to discover entirely out of their own brains arguments to offset the cleverly and persistently presented half-truths or untruths of the demagogue or the Socialist or other varieties of the Utopian or extremist fraternity.

Nor can or should they be expected to accept existing practices or the mere affirmations of business men, as conclusive upon their own mental processes.

It is one of the proper and indeed necessary functions of organizations of business men to spread information on such matters among the people, to give facts and figures and reasons, to defend, justify and explain, and to meet pernicious agitators on their own ground of propaganda.

It is a function which is far too little exercised as yet and the necessity for which is becoming steadily more apparent and more urgent.

The enemies of the existing social, economic and governmental order are at work incessantly, under skilful and none too scrupulous leadership, with great ingenuity and cunning to instill into the minds of the people the poison of class animosity, by misrepresenting facts and conditions and promising the unattainable.

We must not put our heads into the sand in the face of these machinations, nor must we be in fear of them, or permit ourselves to be unduly wrought up. We cannot meet them by blunt denials or by calling hard names, or by harsh actions, or even by appeal to the flag and the Constitution. Indeed, we must be particularly careful not to create the impression that patriotism is used pharisaically as a cloak for smug self-interest and the protection of privilege.

The way to meet wrongful agitation is first by sincere and persistent efforts to eliminate causes for just discontent, and secondly by an organized and unremitting campaign of education and information conducted in the spirit of sympathy, patience, understanding and of respect for differing viewpoints.

We must seek to bring truth and enlightenment into the ring against falsehood and error, and then let them have it out in the presence of the American people. I have no fear of the result.

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